

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7622

BILL NUMBER: SB 620

DATE PREPARED: Jan 14, 1999

BILL AMENDED:

SUBJECT: Indiana Comprehensive Health Insurance Association.

FISCAL ANALYST: Alan Gossard

PHONE NUMBER: 233-3546

**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: This bill limits the total value of loss assessments to Indiana Comprehensive Health Insurance Association (ICHIA) members to \$21,000,000. The bill requires that an assessment beyond that amount be submitted by the Association to the Budget Agency for payment from the state General Fund.

Effective Date: July 1, 1999.

Explanation of State Expenditures: This bill requires that aggregate assessments on ICHIA members are not to exceed \$21 million per year for CY2000 and each year, thereafter. The bill requires that the amount of assessments that are required in excess of \$21 million are to be directly paid from the state General Fund. Due to the ability of member insurance companies to take a corresponding tax credit, the state General Fund is already paying for most ICHIA assessments in the form of reduced tax revenues. However, there will be some net additional cost or lost revenue to the General Fund in an amount equal to the value of tax credits never taken plus the value of interest earned on the amount of assessments over the \$21 million limit as provided in the bill.

Member insurance companies who have paid assessments to ICHIA are currently permitted to take a dollar-for-dollar credit against premium taxes, gross income taxes, adjusted gross income taxes, supplemental corporate net income taxes, or any combination of these, up to the amount of the taxes due for each calendar year in which the assessments were paid and for succeeding years until the total of the assessments has been offset. Thus, the state General Fund is already paying for most ICHIA assessments in the form of reduced tax revenues. However, there are two reasons why the state General Fund benefits from use of the ICHIA assessment mechanism: (1) Some tax credits may never be taken due to consistently unprofitable years for some companies; and (2) the state earns interest on funds before the tax credit can be claimed. These are described, below.

Although a member insurance company may not be able to take the full credit in years of little or no profit,

over time the credits would be expected to eventually be used. The exceptions might be for those companies who have paid assessments and then ceased operations before being able to take full advantage of their accumulated credit and also for those companies that rarely make enough profit to take full advantage of the credits.

The ICHIA assessment mechanism also allows the General Fund to benefit from interest earnings from the delay between the time the assessment is made on the member insurance companies and when the corresponding tax credit can be claimed in the following year (and longer for those firms incurring losses and not able to take the credit in the first year available). For example, the total assessments for CY98 were \$23.5 million (see table below). The excess over the \$21 million limit provided in the bill is \$2.5 million. If that amount were invested at 5.65% (the five-year average for state investments) for six months, investment earnings would equal about \$70,000. (Assessments are predominantly paid in June and December.) With the passage of this bill, that income to the General Fund from the amount of assessment in excess of \$21 million would be forgone by the state. The amount of ICHIA assessments has consistently grown over the last five years and will likely continue to grow, increasing the importance of this factor.

ICHIA Assessments, CY94-CY98.

CY	Total Assessments
1994	\$10,717,540
1995	\$17,479,402
1996	\$17,000,953
1997	\$17,511,556
1998	\$23,500,000

In summary, although the state General Fund ultimately pays for most ICHIA assessments, anyway, there would be some additional cost to the General Fund from the \$21 million assessment limitation as provided in this bill.

Explanation of State Revenues: See Explanation of State Expenditures, above, regarding tax credits taken for ICHIA assessments.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: ICHIA

Local Agencies Affected:

Information Sources: Marjorie Maginn, Anthem, Inc., 488-6351.